

IZONE INTERNATIONAL LTD.CONSOLIDATED INTERIM FINANCIAL INFORMATION
(prepared without audit)SIX MONTHS ENDED AUGUST 31, 1986

Price Waterhouse



January 6, 1987

COMMENTS ON UNAUDITED INTERIM
FINANCIAL INFORMATION

The Directors,
Izone International Ltd.:

We have prepared the accompanying unaudited interim financial information comprising a consolidated statement of operations and deficit for the six months ended August 31, 1986 from the records of Izone International Ltd. and from other information supplied to us by the Company and have reviewed such interim financial information. Our review, which was made in accordance with standards established for such reviews, consisted primarily of enquiry, comparison and discussion.

We have not performed an audit and consequently do not express an opinion on this consolidated interim financial statement. The most recent audited financial statements issued to shareholders were for the year ended February 28, 1986.

Price Waterhouse

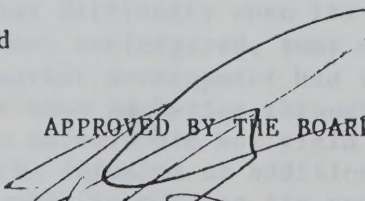
Chartered Accountants

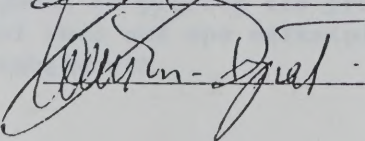
IZONE INTERNATIONAL LTD.

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
SIX MONTHS ENDED AUGUST 31, 1986

Sales	\$ 95,127
Cost of sales	<u>87,322</u>
Income from operations	7,805
Other income	<u>10,660</u>
	18,465
Expenses:	
Rent and office	120,339
Wages	101,007
Obsolete inventory	29,590
Travel and promotion	27,452
Bad debts	28,526
Management fees	26,874
Accounting and legal fees	24,482
Miscellaneous	22,567
Telephone and telex	18,944
Transfers	16,735
Depreciation	13,586
Insurance	12,916
Taxes and licences	12,095
Warranty repairs	9,761
Amortization of the excess of the purchase price over the net assets acquired	31,689
Consulting and secretarial	5,123
Printing	4,719
Bank charges and interest	4,356
Shareholder information	3,917
Filing fees	<u>2,662</u>
	517,340
Loss before income taxes	498,875
Income taxes	<u>754</u>
Deficit at end of period	<u><u>\$499,629</u></u>

APPROVED BY THE BOARD:

 Director

 Director

Digitized by the Internet Archive
in 2023 with funding from
University of Alberta Library

https://archive.org/details/lzon0260_1986

IZONE INTERNATIONAL LTD.

NOTES TO CONSOLIDATED INTERIM FINANCIAL INFORMATION
AUGUST 31, 1986

1. Filing information format:

In accordance with Section 128 of the Securities Act, British Columbia, comparative information and a statement of changes in financial position have been omitted. Inclusion of such information is not considered meaningful given the acquisition of Izone, a California Corporation ("Izone, U.S.") (Note 2).

2. Acquisition of Izone, U.S.:

The Company entered into an agreement to provide interim financing to Izone, U.S. as part of a Plan of Reorganization under the jurisdiction of the United State Bankruptcy Court of the Federal District Court, Southern District of California.

By Court Order made January 31, 1986 and dated February 12, 1986, Izone, U.S. was discharged by the U.S. Bankruptcy Court upon confirmation of a Plan of Reorganization and the sales projection filed by Izone, U.S. on December 3, 1985.

Under the conditions of the Plan of Reorganization, the Company paid U.S. \$225,000 to purchase 37.5% of the common stock of Izone, U.S. Effective March 1, 1986, the Company exercised an option to purchase an additional 12.5% of the common stock of Izone, U.S. for U.S. \$75,000. In addition the Company provided Izone, U.S. with additional working capital and, as of August 31, 1986, the Company held 54.3% of the outstanding common stock.

The results of operations for Izone, U.S. have been included in the consolidated interim statement of operations and deficit from March 1, 1986.

The Plan of Reorganization indicates that Izone, U.S. has been engaged since its inception in the business of the research, development, manufacture and sale of ozone generating devices for water purification purposes. It experienced financial difficulty when its initial product proved less reliable than had been anticipated, sums originally intended for manufacturing and market development had to be expended for additional product development when marketing through distributors selling to the retail pool and spa markets did not yield the cash flow projected. Izone, U.S., with the infusion of additional capital and the completion of new product development is placing its products in the commercial cooling tower and commercial pool and spa marketplaces through direct sale and distributorship arrangements.

2. Acquisition of Izone, U.S. continued:

As at March 1, 1986 Izone, U.S. has debentures outstanding of U.S. \$711,461 the majority of which have payments of principal and interest deferred to 1990.

The acquisition was accounted for by the purchase method and is summarized as follows-

Assets of Izone, U.S. acquired:

Current assets, including funds invested by the Company	\$ 627,961
Fixed assets	86,595
Other assets	<u>293,845</u>
	1,008,401

Deduct: Liabilities of Izone, U.S.:

Current liabilities	(16,238)
Debentures	(1,008,632)
Other liabilities	<u>(507,762)</u>
	(1,532,632)
	<u>(524,231)</u>
Consideration	<u>426,450</u>

Excess of the purchase price over the net assets acquired	<u><u>\$ (950,681)</u></u>
--	----------------------------

3. Amortization of the excess of the purchase price over the net assets acquired:

The principal asset of Izone, U.S. consists of the technology to develop and manufacture ozone water purification systems. The excess of the purchase price over the net assets acquired has been attributed to the technology and accordingly is to be amortized by charges to earnings over a period of 15 years.

